

Fixed vs. Variable Interest Rate And What It Means To You!!!

The Creditworthy Loan Program offers the borrower a choice between a fixed or variable interest rate over the life of the loan. You must make your decision at time of application. The following chart details the differences for your convenience.

SUBJECT	FIXED INTEREST RATE	VARIABLE INTEREST RATE
Is there a fee deducted from the loan proceeds?	Yes. There is a reserve fee of 3.50% for the Creditworthy Loan Program and 5.00% for the Credit Ready Loan Program. It is deducted from the loan proceeds at disbursement.	Yes. There is a reserve fee of 3.50% for the Creditworthy Loan Program. It is deducted from the loan proceeds at disbursement. There is no variable interest rate option for the Credit Ready Loan Program.
What is the interest rate?	The simple interest fixed rate is assigned to the loan at the time of the first disbursement, and remains the same for the life of the loan.	The simple interest variable rate is assigned to the loan at the time of the first disbursement, and is adjusted annually on July 1 st , with a maximum rate not to exceed the rate permitted by Michigan law.
Will the monthly payment always remain the same?	Monthly payments may adjust if forbearance of principal or principal and interest with capitalization of interest is used. Otherwise, they will remain the same for the life of the loan.	Monthly payments may adjust each year based on each year's interest rate or if forbearance of principal or principal and interest with capitalization of interest is used.
Will the final payment be the same?	Forbearance, capitalization and timeliness of regular monthly payments may affect final payment.	The variable interest rate, forbearance, capitalization and timeliness of regular monthly payments may affect the amount of the final payment.

Ten Year Comparison Chart of LIBOR Variable Interest Rate Formula

The Creditworthy Loan Program offers the option of choosing between a fixed or variable interest rate. A fixed interest rate remains the same for the life of the loan. A variable interest rate is adjusted annually on July 1st. It is based on the London Interbank Offered Rate (LIBOR) annual average as of the preceding June 1st, plus 1.50%, with a maximum not to exceed the rate permitted by Michigan law.

Prior to *July 1, 2001, the MI-LOAN Creditworthy Loan Program's variable interest rate was based on the annual average of the 52-week Treasury Bill. That formula was changed to the LIBOR when the 52-week Treasury Bill was discontinued by the U.S. Government.

Below is a chart depicting the variable interest rate for a 10-year period using the LIBOR annual average formula.

LIBOR HISTORY

<i>July 1st Through June 30th</i>	<i>Annual Average LIBOR Rate</i>	<i>LIBOR Plus 1.50%</i>
1996	5.78 %	7.28 %
1997	6.06 %	7.56 %
1998	5.54 %	7.04 %
1999	5.72 %	7.22 %
2000*	6.87 %	8.37 %
2001	6.01 %	7.51 %
2002	2.94%	4.44 %
2003	1.68 %	3.18 %
2004	1.47 %	2.97 %
2005	3.03 %	4.53 %

MI-LOAN Student Loan Repayment Chart				
	5.95 % Fixed Interest Rate		4.53% Variable Interest Rate	
	25-Year Loan Term		25-Year Loan Term	
Amount Owed	Monthly Payment	Total Interest Paid	Monthly Payment	Total Interest Paid
\$ 2,500*	\$ 50	\$ 380	\$ 50	\$ 276
\$ 5,000*	\$ 50	\$ 1,923	\$ 50	\$ 1,290
\$ 7,500*	\$ 50	\$ 6,286	\$ 50	\$ 3,586
\$ 10,000	\$ 64	\$ 9,288	\$ 56	\$ 6,758
\$ 12,500	\$ 80	\$ 11,606	\$ 70	\$ 8,447
\$ 15,000	\$ 96	\$ 13,928	\$ 84	\$ 10,136
\$ 17,500	\$112	\$ 16,251	\$ 98	\$ 11,825
\$ 20,000	\$128	\$ 18,573	\$ 112	\$ 13,514
\$ 22,250	\$ 143	\$ 20,661	\$124	\$ 15,035
\$ 25,000	\$160	\$ 23,217	\$139	\$ 16,894
\$ 30,000	\$192	\$ 27,861	\$167	\$ 20,271
\$ 35,000	\$224	\$ 32,501	\$195	\$ 23,649
\$ 40,000	\$256	\$ 37,146	\$223	\$ 27,030
\$ 45,000	\$289	\$ 41,790	\$251	\$ 30,407
\$ 50,000	\$320	\$ 46,434	\$279	\$ 33,785

This chart is intended only for comparison purposes, since the examples may not represent actual credit terms, and is only intended to show the amount of monthly payments required at various debt and interest rate levels. The Amount Owed represents total balance outstanding at time of repayment. An increase in the interest rate will result in an increased payment amount, an increased number of payments, or both. For other loan payment comparisons, refer to the calculator at www.finaid.org/calculators.

As of 12/01/2005, the Michigan higher Education Student Loan Authority continues to offer a low Creditworthy Loan Program fixed interest rate of 5.95%, and Credit Ready Loan Program fixed interest rate of 8.50%.

*A minimum monthly payment of \$50 is required. Therefore, the repayment period on loans under \$10,000 may be less than the maximum 25 years.